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IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1950

No.....

FRANK L. THORPE, LENAH THORPE, CHARLES W. WATERS and LOUISE T. WATERS, Co-Partners, Doing Business as F. L. THORPE & CO.,

Petitioners,

vs.

IVAN E. LANDSTROM, MARY E. LANDSTROM, A. E. DAHL, JACK DEVEREAUX and BURGESS DEAN, Co-Partners, Doing Business as BLACK HILLS JEWELRY MFG. CO.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

To the Honorable THE SUPREME COURT OF THE UNITED STATES:

The petition of Frank L. Thorpe, Lenah Thorpe, Charles W. Waters, and Louise T. Waters, Co-Partners doing business as F. L. Thorpe & Co., respectfully shows:

I.

OPINION BELOW

This Petition is for review of a judgment of the United States Court of Appeals for the Eighth Circuit, rendered May 4, 1951, reversing a judgment of the United States District Court for the District of South Dakota, entered June 23, 1950, for recovery by Petitioners from Respondents

of $25,000.00 plus interest and costs. Such Court's opinion, not yet published, appears at pages 244-260 of the record as certified to this Court and the Judgment at page 260-261 of such record. Hereinafter "R," followed by Arabic numerals, will denote pages of such record to which references are made.

In reversing the Judgment the Court of Appeals directed dismissal of the suit unless Petitioners, within fifteen days, elect to amend their Complaint and "proceed in accordance with the law as laid down in the Court of Appeals' opinion" (R 260-261). While this is not final in form, the case presents an important clear-cut issue of law, fundamental to further proceedings herein. This is more fully developed under the heading "Reasons for Allowing the Writ." The salient point is whether such Court of Appeals was right in holding that when federal court jurisdiction is not grounded on diversity of citizenship, the doctrine of *Erie Railroad Co. v. Tompkins*, 58 S. Ct. 817, 304 U. S. 64, 82 L. Ed. 1188, has no application, and that so-called federal general law controls, with state law disregarded. Other questions are largely interrelated thereto. See subheading "Questions Presented" for more complete statement thereof.

II.

BASIS FOR JURISDICTION

Jurisdiction of this Court is invoked under Sections 1254(1) and 2101(c) of Title 28, United States Code Annotated.

III.

STATUTES INVOLVED

Pertinent statutory provisions are printed in "Appendix" infra, pages 19-20.

IV.

SUMMARY AND STATEMENT OF MATTER INVOLVED

Respondents' contentions appear in their amended complaint filed in such District Court May 18, 1950 (R 1-8). Diversity of citizenship was not asserted. Jurisdiction was based on 15 U. S. C. A. 1120, 1121 (R 1). See also 28 U. S. C. A. 1338(b).

As outlined by the decision of such Court of Appeals (R 246-249), Petitioners' suit included two aspects:

a. For damages for false registration of a trade-mark. See 15 U. S. C. A. 1120 which, so far as here applicable, provides that a person securing such registration "by a false or a fraudulent declaration or representation . . . shall be liable in a civil action by any person injured thereby for any damages sustained in consequence thereof."

b. For damages for unfair competition, this by defamation of Petitioners by Respondents. This, the Court of Appeals held, was within the scope of 28 U. S. C. A. 1338(b), whereby there is federal court jurisdiction "of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under copyright, patent or trade-mark laws."

Briefly summarized, it was alleged in the amended complaint that for about five years before commencement of the action Petitioners as co-partners and Respondents, also as co-partners, were competitors in the manufacture and sale at both retail and wholesale, including interstate commerce, of jewelry sold under trade-marks chiefly made up of the words "Black Hills Gold," Petitioners having their principal place of business at Deadwood, and Respondents at Rapid City, both being in the Black Hills region of South Dakota (R 1-5); that such trade-mark was widely understood in the jewelry business as signifying jewelry manufactured in the South Dakota Black Hills (R 3-4); that such mark had been continuously used by Petitioners and their predecessors in business for more than thirty years, with a large and lucrative market thereby created, and with such mark essential for successful conduct of Petitioners' business (R 3-4); that pursuant to a wrongful scheme to disrupt Petitioners' business and acquire such business for themselves, Respondents in March of 1947 registered "Black Hills Gold" in the United States Patent Office as a trade-mark, this by a representation, which was false and known by Respondents to be false, that Respondents had had a year of exclusive use of such trade-mark in interstate commerce (R 4-5); that further, pursuant to such wrongful scheme, Respondents in September of 1947 circularized the retail

jewelry trade, including practically all of Petitioners' customers and prospective customers with a letter which included a statement that "the name 'Black Hills Gold' is now a registered trade-mark bearing number 428039 in the United States Patent Office," and

> "Although there are several firms making merchandise similar to ours, we are the only rightful users of the name 'Black Hills Gold,' and any other dealer marking his product with this trade mark will be punishable according to law" (R 5-6);

that this was with knowledge by Respondents that no other persons or corporations, aside from the parties herein, were making any considerable use of any such trade-mark, and that the quoted material in such letter would be understood by the recipients as referring to Petitioners (R 6-7); that it was Respondents' purpose this material should be so understood and that it was in fact so understood (R 6); that Petitioners had been damaged in the sum of $5,000.00 in expenses reasonably and necessarily incurred to have such false registration revoked and in the sum of $100,000.00 in injury to such business of Petitioners and in injury to the reputation and standing of Petitioners in the jewelry trade (R 7); that by their stated acts, Respondents had been guilty of oppression, fraud and malice as against Petitioners, and that Petitioners were entitled to $50,000.00 exemplary damages under Section 37.1902 of the South Dakota Code of 1939 (R 8). The prayer of the Complaint was for actual damages of $105,000.00 and exemplary damages of $50,000 00 (R 8).

The Answer of Respondents admitted the allegations of the amended complaint as to co-partnership of Respondents, and denied all other allegations made (R 8-9).

Trial was by jury, Honorable A. Lee Wyman, District Judge, presiding, commencing June 7, 1950 (R 9). In the main there was little dispute as to the fact situation.

Since 1919 Petitioners or their predecessors had been in the jewelry business at Deadwood and vicinity, had used "Black Hills Gold" as the principal words of their trademarks, had used the same regularly in interstate commerce, had used no other trade-mark, and the entire business was sale of jewelry under a name including "Black Hills" (R 35, 79, 95, 137).

Petitioners' manager testified it would not be "possible to continue in the business" without use of such trade-mark (R 140).

Petitioners' total sales at wholesale for 1946 were $176,101.29, for 1947 $190,834.01, for 1948 $190,029.78 and for 1949 $124,314.46 (R 127).

In 1944 Respondents embarked in business at Rapid City as manufacturers wholesalers and retailers of jewelry, and as such wholesalers, entered into competition with Petitioners for the market as to "Black Hills Gold" jewelry, using these words as a trade-mark on everything sold, and with Respondent Ivan E. Landstrom managing the business for Respondents (R 10, 16, 17).

Testimony was received to the effect that from the Fall of 1944 to January of 1946 Landstrom made several statements along the line that "before long" he would be the only one making "Black Hills Gold" jewelry, and that "he was going to put Mr. Thorpe out of business" (R 53, 54, 58, 70). Landstrom denied making such statements (R 167, 168).

The original application for registration of "Black Hills Gold" as a trade-mark was filed with the United States Patent Office February 26, 1946 (R 19, 231-233). In the declaration filed therewith Landstrom made oath that he was the owner of such trade-mark and "that no other person, firm, corporation or association, to the best of his knowledge and belief, has the right to use said trade-mark in the United States, either in the identical form or in any such near resemblance thereto as might be calculated to deceive" (R 19).

By letter mailed June 26, 1946, the Examiner ruled that registration under the Act of February 20, 1905, was "refused on the ground that the mark is a geographical term combined with a descriptive word," but that if "applicant has had a year of exclusive use of the mark in interstate commerce, this application may be converted to the Act of March 19, 1920. . . ." (R 235). The change was made. In a new declaration, verified July 24, 1946, and filed in the Patent Office January 7, 1947, Landstrom made oath to substantially the same statements as in the previous declaration but with the added statement that "the mark has been in bona fide use for not less than one year in interstate commerce by the applicant" (R 236).

(In the Patent Office "bona fide" in this connection is treated as synonymous with "exclusive." See *Fortune Tobacco Co. v. Axton-Fisher Tobacco Co.*, 22 U. S. Patents Quarterly 366; *Buffalo Rock Co. v. Allen*, 39 U. S. Patents Quarterly 70; *Sutton Publishing Co., Inc. v. McGraw-Hill Publishing Co.*, 72 U. S. Patents Quarterly 176; *Frutana Co. v. Musselman*, 45 U. S. Patents Quarterly 231. There was no dispute as to this at the trial.)

Registration was then granted and the trade-mark registered March 4, 1947 (R 237, 239).

In substance Landstrom admitted that at the time he made these declarations he knew that Petitioners had for several years been using in interstate commerce a trade name which included "Black Hills Gold," and specializing therein, and that he could obtain the registration only if he had had the exclusive use of the mark in interstate commerce for a year (R 17, 18, 20, 170, 172, 177). About September 9, 1947, Respondents forwarded the circular letter partly quoted in the above summary of the amended complaint (R 20-21). This went to 438 customers of Respondents, of whom 109 were then customers of Petitioners, all being retail jewelers (R 125).

While such circular letter did not designate Petitioners by name, it was undisputed that in 1947 nobody other than Petitioners and Respondents were using "Black Hills Gold" in a trade-mark; and that another manufacturer who had started business in 1946 and for a time advertised "Black Hills Gold" jewelry had abandoned such use in 1947 (R 23, 24, 54). Landstrom could not name anybody other than this manufacturer, Petitioners and Respondents who were at that time using any such trade-mark (R 23, 24).

As to the purpose of this circular letter, Landstrom testified it was so "I, and I only, could use that trade name," and so "Thorpe" could "not use it in connection with his jewelry," which use Landstrom said he "proposed to stop" (R 176).

On application of Petitioners, which among other things set forth that Landstrom "had at no time used this mark exclusively," and that it had been continuously used by Petitioners or their predecessors in interstate commerce since 1932, and which application was resisted by Landstrom, the registration was cancelled by the United States Patent Office April 4, 1949 (R 27-34).

Total expenses of Petitioners in the cancellation proceedings were $4,434.82, including Attorneys' fees (R 141). It was stipulated that if present the attorneys involved would testify to payment of such fees and expenses, that the amounts paid them respectively for their services were the reasonable value thereof, and that the expenses paid were necessary to the proceedings and actually incurred (R 145).

To show other damages, Petitioners introduced several tables prepared by an expert accountant from Petitioners' books (R 125-129). These tables divided Petitioners' customers at wholesale into two classes, those who had received the circular letter being denominated "circularized customers," and those who had not received such letter being denominated "uncircularized customers" (R 126). Based on 1946, the last year of business prior to the circular letter, these tables showed a heavy falling off in business with the circularized customers, as contrasted with heavy increases in business with the uncircularized customers, in 1947 and 1948, with a decrease of only 2.46% in 1949 (R 127). By Exhibit 43 (R 129), the accountant computed that if the sales to the circularized customers had maintained the same ratio of increase or decrease, as had the sales to the uncircularized customers, the total of such sales for 1947 to 1949, both years inclusive, to the circularized customers, would have been greater by $173,078.71 than was actually the case (R 129).

The accountant computed Petitioners' profit on wholesale sales at approximately 30% (R 129).

Petitioners' manager testified that other than the circular letter there "had been no distinction or difference" in Petitioners' relations with the circularized customers, as compared with the uncircularized customers, and that he knew of no reason for the contrast in sales, other than the circular letter (R 143). No other explanation for the contrast was offered.

The District Court submitted the case to the jury on the theory that as to the unfair competition by defamation, substantive rights were controlled by state law. So far as now relevant, and summarized, such instructions were:

1. That if the circular letter was intended by Respondents to create the impression that Petitioners were

illegally using a trade name which included "Black Hills Gold," and if the letter was such as to create that impression upon a reasonable mind, it was defamation having a tendency to injure Petitioners in their business, with damages presumed, and that without proof of actual loss of specific sales, damages could be fixed on the basis of a "fair and reasonable estimate of the damages to the Plaintiffs, taking into consideration the nature of the statements made in the letter, the extent of the circulation of the letter, what you find to be the natural and reasonable reaction of recipients to the letter, the nature and extent of the Plaintiffs' business, and all other elements which have a reasonable bearing upon the question of such damages" (R 209-210).

2. That if Respondents acted with malice toward Petitioners, the verdict could include, in addition to other damages such "amount that you consider reasonable and fair and which would serve as an example to others . . . " (R 211).
3. That if Respondents had prosecuted the registration proceeding with malice against Petitioners, there could be recovery by Petitioners of expenses reasonably and necessarily incurred in obtaining cancellation of the registration (R 210-211).

The Court of Appeals held that as to these three points the District Court erred.

In reaching this result as to the unfair competition, the Court dealt as follows with the doctrine of the *Erie* case:

> "This doctrine is not applicable here. Jurisdiction is dependent solely on federal law—the Trade-Mark Act, and not upon diversity of citizenship of the parties. As said in Philco Corporation v. Phillips Mfg. Co., 7th Cir., 133 F. 2d 663, 672, an action for trade-mark infringement: '. . . Registration of plaintiffs' trade-mark rendered all questions concerning its use and protection in interstate commerce questions of federal law, and federal law is supreme.' " (R 251-252.)

Further, and in dealing with the District Court's instruction to the jury as to exemplary damages, the Court of Appeals said:

> "The plaintiffs' contention is that this instruction is correct because it is authorized by South Dakota law. The instruction is consistent with section 37.1902 of the South Dakota Code of 1939. We have shown, supra, that since this is not a diversity case, the rights of the parties are controlled by federal and not by state law" (R 252).

With South Dakota law eliminated, the Court of Appeals held that under federal law Petitioners could not recover for the unfair competition (defamation) except on pleading and proof of special damages, this chiefly on the basis of two Eighth Circuit decisions, these being *Erick Bowman Remedy Co. v. Jensen Salsbery Laboratories,* 17 F. (2d) 255 and *National Refining Co. v. Benzo Gas Motor Fuel Co.,* 20 F. (2d) 763 (R 251, 259-260).

As to recovery of exemplary damages and recovery of expense of securing cancellation of the registration, the conclusion was that neither was permissible under federal law (R 255-260).

V.

QUESTIONS PRESENTED

The following questions are urged for review here:

First, was the Court of Appeals right in holding that where federal court jurisdiction is not based on diversity of citizenship, the doctrine of the *Erie* case has no application?

Second, assuming nondiversity alone did not exclude the case from the *Erie* doctrine, did South Dakota or federal law control the substantive rights of the litigants,

a. as to the claim for damages for fraudulent registration of the trade-mark?

b. as to the "related" claim for unfair competition by defamation?

Third, was the Court of Appeals correct in holding that Petitioners could not recover except by pleading and proof of special damages?

Fourth, was the Court of Appeals correct in holding that Petitioners could not recover reasonable and necessary expenses incurred in procuring cancellation of the fraudulent registration?

Fifth, was the Court of Appeals correct in holding that Petitioners could not recover exemplary damages?

VI.

SPECIFICATIONS OF ERRORS TO BE URGED

The United States Court of Appeals for the Eighth Circuit erred herein:

1. In holding that inasmuch as jurisdiction of the District Court of South Dakota herein was not based on diversity of citizenship, rights of the parties were controlled by federal and not by state law.
2. In failing to apply to Petitioners' claim for false registration of a trade-mark, the law of South Dakota, to the extent such South Dakota law is not in conflict with any federal legislation.
3. In failing to apply South Dakota law to Petitioners' "related" claim of unfair competition.
4. In holding that Petitioners' claim for damages for the unfair competition (defamation) could be sustained only by pleading and proof of special damages.
5. In holding that Petitioners could not recover reasonable and necessary expenses of securing cancellation of the fraudulent registration.
6. In holding Petitioners could not recover exemplary damages.

VII.

REASONS FOR ALLOWING THE WRIT

Basic to questions presented is the fact that as to the tort unfair competition (in this instance by defamation) substantive rights of Petitioners are vastly greater under South Dakota law than under federal general law as declared by the Court of Appeals. This is not open to question.

As to South Dakota law applicable to such defamation, see Section 47.0502 of the South Dakota Code of 1939 (Vol. 3, page 392), which so far as here relevant, is set forth in the appendix to the accompanying brief, and the following South Dakota Supreme Court decisions construing this statute: *Barron v. Smith*, 19 S. D. 50, 101 N. W. 1105; *Sherin v. Eastwood*, 27 S. D. 312, 131 N. W. 287; *Adams v. Scott*, 33 S. D. 194, 145 N. W. 446; *Niblo v. Ede*, 35 S. D. 359, 152 N. W. 284; *Sherin v. Eastwood*, 46 S. D. 24, 190 N. W. 320.

As shown by these decisions, it is the South Dakota law that if the subject of a libel is adequately identified, it is inconsequential that he is not specifically named, such being the holding of *Barron v. Smith*, supra; and that if such a publication is false and unprivileged and "has a tendency to injure a person in his occupation or business," it is libelous per se, with no requirement that special damages be pleaded or proved. See particularly *Adams v. Scott*, supra, the other cited cases being to the same general effect. In the view of the Court of Appeals, federal general law is to the contrary.

As to exemplary damages see Section 37.1902, South Dakota Code of 1939 (Vol. 2, page 596), set forth in the appendix to the accompanying brief and *Gamble v. Keyes*, 43 S. D. 245, 178 N. W. 870, and *Smith v. Weber*, 70 S. D. 232, 16 N. W. (2d) 537. In instructing the jury as to exemplary damages, the District Court followed the local law.

Stemming from the foregoing, reasons for allowing the writ are as hereinafter set forth.

First, while the Court of Appeals' decision is not final in form, there is nevertheless presented a situation within the rule of *Forsyth v. City of Hammond*, 166 U. S. 506, 17 S. Ct. 665, 41 L. Ed. 1095; *Larson v. Domestic & Foreign Commerce Corp.*, 337 U. S. 682, 69 S. Ct. 1457, 93 L. Ed. 1628; *Land v. Dollar*, 330 U. S. 731, 67 S. Ct. 1009, 91 L. Ed. 1209; and *United States v. General Motors Corporation*, 323 U. S. 373, 65 S. Ct. 357, 89 L. Ed. 311. The purport of these cases is that if there is presented a clean-cut and important issue of law, "fundamental to the further conduct of the case," there may be review here, even though the judgment is in form interlocutory rather than final. As hereinafter developed, the vital law question here is clean-cut and important. That it is "fundamental to the further conduct of the case" is apparent.

Second, the Court of Appeals has decided an important question of federal law which has not been, but should be settled by this Court. This, of course, refers to the determination that in a nondiversity case, state law is disregarded and federal law is supreme.

To date such decision is the only actual holding by a federal appellate court that the Erie doctrine has no application to a nondiversity case. There was, however, a statement to this effect in the same court's decision in *Watkins v. Oak-*

lawn Jockey Club, 183 F. (2d) 440, 442. This, however, appears to be only dicta, as rights of the parties were fixed under a controlling federal statute. While cited to that effect in the decision here in question, *Philco Corporation v. Phillips Manufacturing Co.* (7), 133 F. (2d) 663, in fact expresses the contrary view. As appears at pages 666-667 it was stated that a claim for "unfair competition" by "disparagement of rivals and their goods" and a claim for unfair competition where the trade-mark is "unregistered" or "held invalid under the Trade-Marks Act," are among those which "are governed by state law." Directly to the contrary of the decision here questioned is the holding of the Court of Appeals of the Sixth Circuit in *Grocers' Baking Co. v. Sigler*, 132 F. (2d) 498, 501. The opinion indicates the *Sigler* case to be a nondiversity case, and holds state law applicable to the "related" claim of unfair competition. Numerous other cases state a view to the effect that state law controls such a claim. These include: *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.* (6), 119 F. (2d) 316, 322; *Neuhoff, Inc. v. Neuhoff Packing Co.* (6), 167 F. (2d) 459, 466; *Campbell Soup Co. v. Armour & Co.* (3), 175 F. (2d) 795, 796-797; *Dwinnell Wright Co. v. National Product Co.* (1), 129 F. (2d) 848, 851-852 (see also District Court opinion in same case, 47 F. Supp. 499); *Time, Inc. v. Viobin Corp.* (7), 128 F. (2d) 860, 862; *Addressograph-Multigraph Corp. v. American Expansion and Bolt Mfg. Co.* (7), 124 F. (2d) 706, 708; *Rytex Co. v. Ryan* (7), 126 F. (2d) 952, 954; *Triangle Publications v. New England Newspaper Publishing Co.*, 46 F. Supp. 198.

Importance of the question is demonstrated by the attention it has already received. Illustrative are the majority opinion, and the concurring opinions of Justices Frankfurter and Jackson in *D'Oench Duhme & Co. v. Federal Deposit Insurance Co.*, 315 U. S. 447, 62 S. Ct. 676, 86 L. Ed. 956, which reflect that the question is unsettled and should be settled. Also illustrative are Judge John J. Parker's article in 35 American Bar Association Journal No. 1, page 19, where (see page 85) he takes the position that the Erie doctrine does not apply in a nondiversity case, and article in 42 Columbia Law Review 955, which reaches the same conclusion. To the contrary see annotation in 148 A. L. R. 166, where at page 167 the author states:

"It would be strange indeed if the substantive law applicable in a federal court would vary according to the grounds on which the jurisdiction is invoked. In fact no case has been found which would support such a conclusion."

In view of the rule now promulgated in the Eighth Circuit, and the conflict existing, it would be unfortunate to let the matter stand as at present, with no authoritative decision from this Court as a guide to federal district and circuit courts.

Third, while the Erie case was a diversity suit, the Court of Appeals' conclusion cannot be reconciled with the reasons stated by the majority of this Court for the Erie doctrine. References below in parentheses are to pages of the Erie case as it appears in 304 U. S. 64.

(a.) The gist of the Erie doctrine is: "Except in matters governed by the Federal Constitution or by acts of Congress, the law to be applied in any case is the law of the state" (78). In the circumstances existing, it cannot be that the words "in any case" were used carelessly. Mr. Justice Brandeis and the concurring Justices must have meant precisely what was there written.

(b.) As basis for the stated rule, it was held that under the Federal Constitution, neither Congress nor a federal court has "power to declare substantive rules of common law applicable to a state, whether they be local in their nature or 'general,' be they commercial law or a part of the law of torts" (78). In *Ruhlin v. New York Life Ins. Co.*, 304 U. S. 202, 205, 58 S. Ct. 860, 861, 82 L. Ed. 1290, decided only a week after the Erie case, and in which it was held that the doctrine applies to suits in equity as well as to suits at law, a unanimous court recognized that the Erie case "settles the question of power." If such power is absent, it could not exist in a nondiversity case any more than in a diversity case.

(c.) Based largely on research of Charles Warren, as shown in 37 Harvard Law Review, 49, 51-52, 81-88, 108, it was held that *Swift v. Tyson,* 16 Pet. 1, 10 L. Ed. 865, and later cases based thereon, were "erroneous" in their construction of Section 34 of the Federal Judiciary Act of September 24, 1789, now 28 U. S. C. A. 1652. Such research disclosed that the original draft of the Act was revised by substituting

"laws of the several states" for "statute law of the several states in force for the time being and their unwritten or common law now in use, whether by adoption from the common law of England, the ancient statutes of the same or otherwise." Thereby it was apparent Congress intended "laws" to be all inclusive, and not limited to statute law, and judicial construction thereof, as held in *Swift v. Tyson.* This Court in the Erie case thereby construed the statute as in conformity with the lack of "power" to pronounce substantive law for the states. Such construction conforms with the gist of the Erie doctrine as stated in "a" supra—that state law, statutory or declaratory controls unless in conflict with the Federal Constitution or laws. This leaves no room for a holding that controlling substantive law will vary according to the ground on which jurisdiction is invoked.

(d.) The court emphasized the "defects, political and social," the "mischievous results," the "discrimination," the "injustice" and the "confusion" which had stemmed from *Swift v. Tyson.* If the decision here questioned should become the controlling rule much of this will be restored—some of it in aggravated form. This is developed under "Fourth," infra.

Fourth, the Court of Appeals' decision goes to the length of disregarding not only local declaratory law, but also the local statutory law. As shown in the *Erie* case in this Court's review of prior decisions, neither *Swift v. Tyson* nor later cases went that far. To that extent the "mischief," "confusion," etc. outlined in the *Erie* case, would be expanded. Unless the Court of Appeals' decision is here reviewed and corrected, in nondiversity cases (referring to those where there is no Federal Constitutional provision or statute controlling substantive rights) and in any instance where, as to substantive rights, state law (statutory or declaratory) differs from so-called federal general law, the situation in the Eighth Circuit will be:

a. One rule of substantive law will be applied in the state courts and a different rule of substantive law will be applied in the federal courts.

b. A federal court in such a case will apply a different rule of substantive law than that which the same court will apply where there is diversity of citizenship.

c. As a result, and in a federal court, there will be the incongruity of excluding two citizens of the same state from application of the law of their own state, but applying the law of that state to a controversy between a resident and a nonresident.

d. Where, as often happens, the ultimate result hinges on some included issue, such as validity of a note, competency to contract, whether conduct is tortuous, etc., necessarily controlled by local statute, such statute would be ignored and the court's concept of federal general law applied.

e. In a claim for unfair competition pendant to a claim under the federal patent, copyright or trade-mark statutes, the claimant would be in the fortunate position of selecting which of the two conflicting rules of substantive law would apply. If federal general law better suited him, he would include such claim in his federal court action. If state law better suited him, he would bring an independent action thereon in the state courts.

f. The door would be open to maneuvers which would have the effect of changing the applicable law. In a controversy between citizens of the same state, either could, by removal of residence to another state in advance of suit, transform the case from one for application of federal law to one for application of a state law. Where diversity depends on citizenship of a party acting in a representative capacity (executor, administrator, etc.) the same result could be accomplished by securing appointment of such a representative with a residence which would effect the desired result.

Fifth, the broad doctrine of the *Erie* case is that substantive law applicable in a state does not vary according to the court in which a controversy is adjudicated; that where there is a controlling federal statute as to substantive rights, it takes precedence over any state statute inconsistent therewith, whether the suit is in federal or state courts; and that absent such federal statute, state law, whether statutory or declaratory, controls, and this regardless of whether the controversy is before a state or federal court. This should apply irrespective of the ground on which federal jurisdiction is invoked. It would eliminate the mischief pointed out in the *Erie* case and under "Fourth," supra. The Court of Appeals' decision represents a departure from the doctrine. It should

be corrected, not only to avoid the incongruous results thereof in the Eighth Circuit, but so the case will not stand as authority for a like holding in other circuits.

Sixth, the Court of Appeals' concept does violence to the Tenth Amendment of the Federal Constitution whereby: "The powers not delegated to the United States by the constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people."

If, in nondiversity cases, and as to substantive rights fairly in the domain of local legislation, federal courts may disregard local law, statutory as well as declaratory, and fix such rights according to the Judges' concept of federal general law, such state law would be established by an agency foreign to the state, and with no power for change vested in the state or its legislature. The present situation is illustrative. *Adams v. Scott*, 33 S. D. 194, 145 N. W. 446, was decided February 14, 1914. It construed what is now Section 47.0502 of the South Dakota Code of 1939 as affording relief for such a libel as that here, without pleading or proof of special damages. Apparently this rule of substantive law has been satisfactory to the legislature and people of South Dakota, as it has stood unchanged for more than a generation. Under the Court of Appeals' decision, this substantive right is greatly restricted, and this solely on the basis of so-called federal general law. If such a state statute is to be disregarded, and such federal general law takes precedence thereover, it would necessarily follow that any future South Dakota statute would be equally ineffective. Hence, and so far as concerns a nondiversity case in federal court, this substantive right would be immutably fixed by such federal general law, as declared by the federal courts, controlling relations of South Dakota citizens with each other, and without regard to whether the people of the state or their legislature deem the rule of law so established, salutary or unsalutary. *Swift v. Tyson* did not go that far. It recognized the power of a state legislature, in local matters, to fix substantive rights, and the controlling effect of the construction given to a state statute by the highest court of the state. The states have never delegated to the federal government, or any branch thereof, any power so to abrogate any valid state statute fixing substantive rights. So far as has been

found, no federal appellate court has ever previously asserted any such power. The present assertion thereof should not become authoritative until reviewed and considered here.

Seventh, what has already been set forth applies to the interrelated questions, which are (assuming diversity or nondiversity is not the criterion) whether state or general law applies to (a) the claim for false registration and (b) the claim for unfair competition. As to (a) in *Pecheur Lozenge Co. v. National Candy Co.*, 315 U. S. 666, 62 S. Ct. 853, 86 L. Ed. 1103, this court had granted certiorari to review an analogous problem, which, however, was found not to be presented when the record was reviewed. In the main, at least, federal trade-mark statutes establish procedural rather than substantive rights and except as such statutes otherwise provide, substantive rights are as they exist under local law, with no purpose in the federal statutes to extinguish, abridge or modify any right existing under local law. *Beckwith's Estate v. Commissioner of Patents*, 252 U. S. 538, 543, 40 S. Ct. 414, 64 L. Ed. 705; *American Steel Foundries v. Robertson*, 269 U. S. 372, 381, 46 S. Ct. 160, 70 L. Ed. 317; *American Trading Co. v. H. E. Heacock Co.*, 285 U. S. 247, 258, 52 S. Ct. 387, 76 L. Ed. 740.

15 U. S. C. A. Sec. 1120 simply provides that a person procuring a false registration of a trade-mark "shall be liable in a civil action by any person injured thereby for any damages sustained in consequence thereof." Clearly no state law could extinguish or modify any right existing under this statute. The question here is whether Congress intended to preempt the field and extinguish substantive rights of redress for this tort, existing under local law, or whether such substantive rights still exist, supplementing such right as is conferred by the statute. As evidenced by the *Pecheur Lozenge* case, supra, the question is of sufficient importance to call for review here. What has been stated under "First" to "Fifth" is applicable to question (b). Unless nondiversity eliminates the Erie doctrine, it is clear the pendant claim for unfair competition is controlled by local law.

Eighth, another question of considerable importance is whether Petitioners were entitled to recover the reasonable and necessary expense of vacating the false registration. Petitioners being in effect an adverse party to the registration

proceeding, and if South Dakota law controls, and if Respondents acted maliciously, right of such recovery is established under *Teesdale v. Liebschwager,* 42 S. D. 323, 174 N. W. 620, *Davis v. Farmers Grain & Produce Co.,* 48 S D. 15, 201 N. W. 708, *Brown v. Keyes,* 54 S. D. 596, 223 N. W. 819, and *Kolka v. Jones,* 6 N. D. 461, 71 N. W. 558, reasoning of which is adopted in the *Teesdale* case.

However, and apart from any question of malice, if the registration was fraudulent, Petitioners were entitled to the necessary and reasonable expense of eliminating it. See *Restatement of the Law of Torts,* Section 633, page 347. This states that the publisher of disparaging matter is liable for "the expense of litigation reasonably necessary to remove the doubt cast by the disparagement upon the other's property in the thing or upon the quality thereof." See also page 533 under "Comment" on Clause (b).

PRAYER

WHEREFORE, your Petitioners respectfully pray that a writ of certiorari be granted herein to review the decision and judgment of the United States Court of Appeals for the Eighth Circuit herein, and that said judgment be reversed.

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APPENDIX

(Statutory Provisions Cited and Quoted)

Tital 15 United States Code Annotated, Section 1120:

"Same; civil liability for false or fraudulent registration

"Any person who shall procure registration in the Patent Office of a mark by a false or fraudulent declaration or representation, oral or in writing, or by any false means, shall be liable in a civil action by any person injured thereby for any damages sustained in consequence thereof."

Title 15 United States Code Annotated, Section 1121:

"Same; jurisdiction of Federal courts

"The district and territorial courts of the United States shall have original jurisdiction, the circuit courts of appeal of the United States and the United States Court of Appeals for the District of Columbia shall have appellate jurisdiction, of all actions arising under this chapter, without regard to the amount in controversy or to diversity or lack of diversity of the citizenship of the parties."

Title 28 United States Code Annotated, Section 1254(1):

"Courts of appeals; certiorari; appeal; certified questions

"Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

"(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;"

Title 28 United States Code Annotated, Section 1338(b):

"Patents, copyrights, trade-marks, and unfair competition

"(a) . . .

"(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent or trade-mark laws."

Title 28 United States Code Annotated, Section 1652:

"State laws as rules of decision

"The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply."

Title 28 United States Code Annotated, Section 2101(c):

"Supreme Court; time for appeal or certiorari; docketing; stay

"Any other appeal or any writ of certiorari intended to bring any judgment or decree in a civil action, suit or proceeding before the Supreme Court for review shall be taken or applied for within ninety days after the entry of such judgment or decree. A justice of the Supreme Court, for good cause shown, may extend the time for applying for a writ of certiorari for a period not exceeding sixty days."

Section 37.1902, South Dakota Code of 1939, Vol. 2, page 596:

"In any action for the breach of an obligation not arising from contract, where the defendant has been guilty of oppression, fraud, or malice, actual or presumed, or in any case of wrongful injury to animals, being subjects of property committed intentionally or by willful and wanton misconduct, in disregard of humanity, the jury, in addition to the actual damage, may give damages for the sake of example, and by way of punishing the defendant."

Section 47.0502, South Dakota Code of 1939, Vol. 3, page 392, so far as here applicable:

"Defamation classified and defined. Defamation is effected by:

"(1) Libel; or

"(2) Slander.

"Libel is a false and unprivileged publication by writing, printing, picture, effigy, or other fixed representation to the eye which exposes any person to hatred, contempt, ridicule, or obloquy, or which causes him to be shunned or avoided, or which has a tendency to injure him in his occupation."

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JUL 2 1951

CHARLES ELMORE CROPLEY
CLERK

Supreme Court of the United States

October Term, A. D. 1950

No. 105

PEARL L. [illegible], LAURIE TROMBLY, CHARLES W. WATSON and LAURIE T. WATSON, Co-partners Doing Business as T. L. WATSON & CO., Petitioners,

vs.

IVAN E. LANDSTROM, MARY E. LANDSTROM, A. E. DAHL, JACK DIEFENBAUCH and SURGENER DEAN, Co-partners Doing Business as BLACK HILLS [illegible] CO.,

Respondents.

PETITIONERS' REPLY BRIEF

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IN THE

Supreme Court of the United States

October Term, A. D. 1950

No. ———

FRANK L. THORPE, LENAH THORPE, CHARLES W. WATERS and LOUISE T. WATERS, Co-partners, Doing Business as F. L. THORPE & CO., Petitioners,

vs.

IVAN E. LANDSTROM, MARY E. LANDSTROM, A. E. DAHL, JACK DEVEREAUX and BURGESS DEAN, Co-partners, Doing Business as BLACK HILLS JEWELRY MFG. CO., Respondents.

RESPONDENTS' BRIEF OPPOSING GRANTING OF CERTIORARI

I.

OPINION

The opinion of the Court of Appeals, Eighth Circuit, is still unpublished but a certified copy appears in the record (pp. 244-261).

II.

STATEMENT OF THE CASE

Figures in parentheses, unless otherwise indicated, refer to pages of the printed record.

This action was brought under the Lanham Act, 15 U. S. C. A. 1051-1127, 60 Stat. 427-443, to recover damages for wrongful registration of a trade mark and for unfair competition incident to publicizing such registration. Federal jurisdiction was asserted under 15 U. S. C. A. 1120 and 1121 of the Lanham Act.

The claimed unfair competition was based on a letter sent out by respondents to retail jewelers advising them that "Black Hills Gold" was now a registered trade mark and that respondent was the only rightful user of such mark (5). Exhibit 9 (20).

At the trial the District Court instructed the jury that this letter was defamation and actional per se with presumed damages (209).

In the complaint petitioner claimed exemplary damages under S. D. C. 37.1902, a statute of the state of South Dakota, which provides that such damages may be awarded in certain cases "where the defendant has been guilty of oppression, fraud, or malice, actual or presumed." The trial court instructed the jury that they might award exemplary damages (211).

The trial court also instructed the jury that petitioners' expenses for attorneys fees and costs in a proceeding for cancellation of the registration of the trade mark in question were recoverable as part of petitioners' damages.

There was no pleading or proof of special damages but the trial court, nevertheless, denied two motions for a directed verdict and, by denying a motion for judgment

in accordance with the motions for directed verdict, approved a verdict of the jury for $15,000 actual damages and $10,000 exemplary damages.

The Court of Appeals held that the trial court erred in all four of the above mentioned rulings. Clearly, error as to any one of the rulings would compel reversal. It should be noted that at least two of these rulings had nothing to do with the application of local law.

III.

ARGUMENT

Petitioners claim that certiorari should be granted to them on two grounds mentioned in Rule 38 (b):

1. The Court of Appeals for the Eighth Circuit has rendered a decision in conflict with the decision of another circuit court of appeals on the same matter.

2. The Court of Appeals has decided an important question of federal law which has not been, but should be, settled by this court.

The decision in question is that the Erie Doctrine is not applicable in a nondiversity case.

Our answer to this contention is:

1. There is no substantial conflict between the decisions of the several circuits on this matter.

2. The action is under the Lanham Act and federal law now occupies the entire field of trade mark registration and unfair competition to the exclusion of local law. It falls under the exception clearly stated by Justice Brandeis in *Erie Railroad Co. v. Tompkins,* 304 U. S. 64, 58 S. Ct. 817, "except in

matters governed by the federal constitution or acts of congress."

3. The decision, as to the right to recover expenses of securing cancellation of registration, is based upon general law. On this point there is no difference between local and federal law. The trial court's ruling on this point alone would necessitate reversal.

4. The decision that the letter, Exhibit 9, is not actional per se is also based on general law. The court below followed long standing precedent.

1.

On page 12 of the petition petitioners cite cases which they claim show conflict between the holdings of the Eighth Circuit that the Erie Doctrine has no application in a nondiversity case and holdings in other circuits.

Obviously, expressions in diversity cases as to the applicability of local law are of no use. Of course, state law governs in all such cases under the Erie rule. Regardless of that fact, petitioners cite the following *diversity* cases in support of a claimed conflict with the holdings of the Eighth Circuit:

Philco Corporation v. Phillips (7th Cir.), 133 F. (2d) 663;

Neuhoff, Inc. v. Neuhoff Packing Co. (6th Cir.), 119 F. (2d) 316;

Dwinell Wright Co. v. National Product Co. (1st Cir.), 129 F. (2d) 848;

Time, Inc. v. Viobin Corp. (7th Cir.), 128 F. (2d) 860;

Rytex Co. v. Ryan (7th Cir.), 126 F. (2d) 952.

The *Dwinell* case was again before the First Circuit in 140 F. (2d) 618. In that opinion it is stated positively that federal, not local, law applies.

Eliminating the above cases leaves only *Grover's Baking Co. v. Sigler* (6th Cir.), 132 F. (2d) 498; *Mishawaka Rubber and Woolen Mfg. Co. v. Kresge* (6th Cir.), 119 F. (2d) 316; *Campbell Soup Co. v. Armour & Company* (3rd Cir.), 175 F. (2d) 795, and *Addressograph-Multigraph Corp. v. American Expansion and Bolt Mfg. Co.* (7th Cir.), 124 F. (2d) 706.

The *Mishawaka* case is of dubious value as a precedent because this court on certiorari reversed and remanded in 316 U. S. 203, 62 S. Ct. 1022.

There is nothing in the Sigler case indicating that it is a nondiversity case. It may have been a diversity case and in any event it was decided under the old law prior to the enactment of the Lanham Act.

The *Campbell Soup* case, in all likelihood, was a diversity case because it cites as authority for its holding *Anheuser-Busch, Inc. v. DuBois,* 175 F. (2d) 370, which states categorically:

> "In *diversity* suit to enjoin use of alleged common law trade-name, state law controls."

We can find no indication in the *Addressograph* opinion as to diversity or nondiversity. The decision, however, gives full recognition to exception in the *Erie* case exempting from the rule all matters governed by the Constitution and laws of the United States.

It is apparent from the foregoing that in none of the cases brought forward by petitioners is there any unequivocal statement that the *Erie* rule is applicable in nondiversity cases. We have not been able to locate any such holding. Justice Jackson put the matter at rest when he said:

> "The Court has not extended the doctrine of Erie R. Co. v. Tompkins beyond diversity cases."
> 315 U. S. 447, 62 S. Ct. 683.

Judge Parker, Chief Judge of the Fourth Circuit, in his analysis of the *Erie* doctrine is equally positive:

> "It is well settled that the doctrine of the Erie case applies only in cases arising under diversity jurisdiction."
> 35 *A. B. J.* 19.

The eminent legal scholar, Sergei G. Zlinkoff, of New York reaches the same conclusion in an exhaustive treatise in 47 Columbia Law Review 955.

2.

There is another perhaps more compelling reason why federal law and not local law governs this case.

The federal statute under which the case is brought condemns as unlawful certain acts and prescribes the legal consequences which follow violation. In short, the statute creates the cause of action and provides the remedy. In all such cases, both diversity and nondiversity, the federal law must be applied.

The Lanham Act, 15 U. S. C. A. 1051-1127, 60 Stat. 427-443, we believe, is the entire law governing the rights and remedies relating to trade marks and unfair competition. It gives the right of action for violation of its provisions and prescribes the remedies available to anyone injured by such violations. Congress occupied the entire area, leaving nothing to federal common law or to state law, whether decisional or statutory.

15 U. S. C. A. 1127, 60 Stat. 443.

Congressional comment at the time of the Lanham Act was being considered makes this very plain. As to the reason for the enactment, the senate committee report said (U. S. Congressional Service, 79th Congress, Second Session, 1946, pp. 1274, 1276, 1277):

> "The purpose of this bill is to place all matters relating to trade marks in one statute and to eliminate judicial obscurity, to simplify registration and to make it stronger and more liberal, to dispense with mere technical prohibitions and arbitrary provisions, to make procedure simple, and relief against infringement prompt and effective. This bill effects this necessary codification and coordination."

It is stated broadly that the purpose of the Act was:

> "To get all existing trade mark statutes in a single piece of legislation."

Congress, through the Lanham Act, has occupied the entire field and thereby excluded all state statutes and state rules. It has not only excluded state law both statutory and decisional but it has also excluded resort to the so-called federal common law.

This is made plain by the language of Judge Learned Hand in *S. C. Johnson & Son v. Johnson,* 175 F. (2d) 176. Discussing the question whether the new trade mark and unfair competition law created substantive rights or merely gave procedural advantages, he says:

> "The Lanham Act put an end to any doubts upon that score, and to the confused condition in which those doubts involved the whole subject, especially after Erie Railroad Company v. Tompkins. These were fully discussed by Judge Wyzanski in his opinion in National Fruit Product Co. v. Dwinell-Wright Co., but they ceased to be important after Congress provided that any infringer should 'be liable to a civil action by the registrant for any or all the remedies hereinafter provided * * *.' Never-

theless, although it is no longer open to doubt that the present act created rights uniform throughout the Union, in the interpretation of which we are not limited by local law, it does not follow that, in determining what these are, we are not to be guided by the existing common-law, especially in regard to issues as to which that law was well settled in 1946."

Chief Justice Stone in *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173, 63 S. Ct. 172, states it thus:

"It is familiar doctrine that the prohibition of a federal statute may not be set at naught, or its benefits denied, by state statutes or state common law rules. In such a case our decision is not controlled by Erie Railroad v. Tompkins. 304 U. S. 64, 58 S. Ct. 817, 82 L. Ed. 1188, 114 A. L. R. 1487. There we followed state law because it was the law to be applied in the federal courts. But the doctrine of that case is inapplicable to those areas of judicial decision within which the policy of the law is so dominated by the sweep of federal statutes that legal relations which they affect must be deemed governed by federal law having its source in those statutes, rather than by local laws. * * * When a federal statute condemns an act as unlawful the extent and nature of the legal consequences of the condemnation, though left by the statute to judicial determination, are nevertheless federal questions, the answers to which are to be derived from the statute and the federal policy which it has adopted. To the federal statute and policy, conflicting state law and policy must yield."

This court has repeatedly asserted this rule.

Prudence Realization Corp. v. Geist, 316 U. S. 89, 62 S. Ct. 978;

Board of Com'rs v. U. S., 308 U. S. 343, 60 S. Ct. 285;

Deitrick v. Greaney, 309 U. S. 190, 60 S. Ct. 480.

3.

The Court of Appeals held that the trial court erred in (a) denying respondents' motion to strike from the complaint all matters relating to claimed damages by reason of attorneys' fees and costs paid in a prior proceeding for cancellation of the trade mark here involved; (b) in permitting petitioners to submit evidence of such claimed damages; (c) in denying respondents' motion to eliminate such claimed damages from consideration by the jury, and (d) in submitting such items to the jury in its instruction.

If this were the only point, a reversal would still be inevitable and the result would be the same.

This holding is not based upon any federal law. The supporting authorities are from Illinois, Nebraska and Minnesota. The Court of Appeals makes it plain that it is acting under general law by stating: "There is no federal statute authorizing a recovery for the expenses so incurred."

Certiorari should not be granted to review abstract propositions of law that do not affect the result reached by the Court of Appeals.

4.

Whether the letter, Exhibit 9, is actional per se dispensing with pleading and proof of special damages is also a question of general law. The Court of Appeals adhered to its former decisions, *Erick Bowman Remedy Co. v. Jensen Salsbury Laboratories* (1926), 17 F. (2d) 255, and *National Refining Co. v. Benso Gas Motor Fuel Co.* (1927), 20 F. (2d) 763, but if South Dakota Statutes and decisions had been applied the result would have been the same. The error of the trial court in holding the

letter actional per se and in telling the jury that they might estimate the damages would compel reversal. The writ of certiorari should not be employed to obtain rulings on questions of law that would not change the ultimate conclusion reached by the Court below.

Summarizing we submit that there is no demonstrable conflict on the application of local law in the decisions of the various circuit courts of appeal; that there were errors warranting reversal even if local law had been applied in this case; that the Lanham Act dominates the entire field of trade mark and unfair competition law; that the court below scrupulously applied that Act and hence there is no valid reason for a review by certiorari in this case.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1951

No. 105

FRANK L. THORPE, LENAH THORPE, CHARLES W. WATERS and LOUISE T. WATERS, Co-Partners, Doing Business as F. L. THORPE & CO.,

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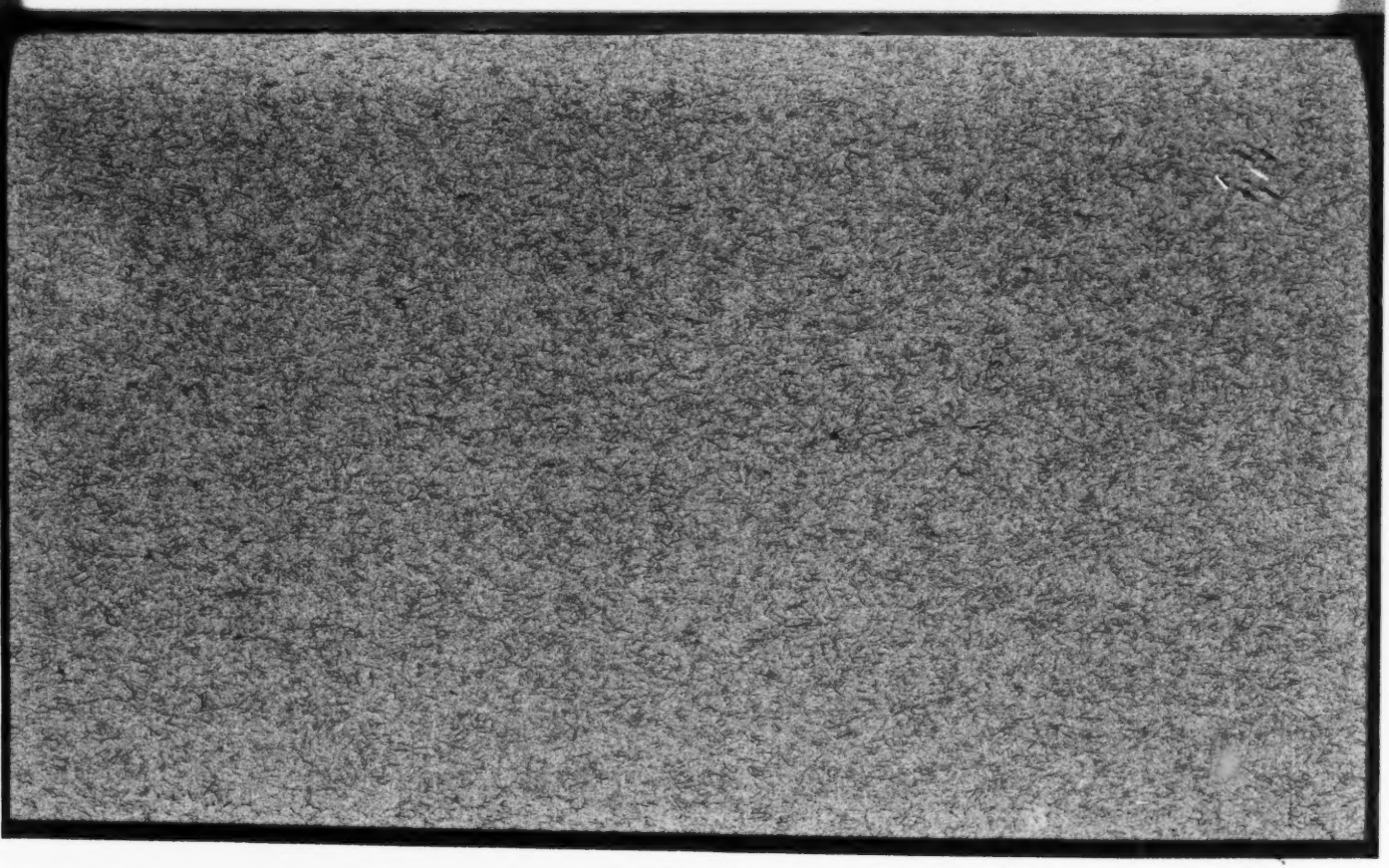

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